

REQUEST FOR COUNCIL ACTION CITY OF SAN DIEGO				CERTIFICATE NUMBER (FOR COMPTROLLER'S USE ONLY)	
TO: CITY COUNCIL		FROM (ORIGINATING DEPARTMENT): Debt Management		DATE: 04/05/2013	
SUBJECT: Fiscal Year 2014 Tax and Revenue Anticipation Notes					
PRIMARY CONTACT (NAME, PHONE): Jyothi Pantulu, (619)236-6917, 7B			SECONDARY CONTACT (NAME, PHONE): Kevin Werner, (619)533-6121, 7B		
COMPLETE FOR ACCOUNTING PURPOSES					
FUND					
DEPT / FUNCTIONAL AREA					
ORG / COST CENTER					
OBJECT / GENERAL LEDGER ACCT					
JOB / WBS OR INTERNAL ORDER					
C.I.P./CAPITAL PROJECT No.					
AMOUNT	0.00	0.00	0.00	0.00	0.00
FUND					
DEPT / FUNCTIONAL AREA					
ORG / COST CENTER					
OBJECT / GENERAL LEDGER ACCT					
JOB / WBS OR INTERNAL ORDER					
C.I.P./CAPITAL PROJECT No.					
AMOUNT	0.00	0.00	0.00	0.00	0.00
COST SUMMARY (IF APPLICABLE):					
ROUTING AND APPROVALS					
CONTRIBUTORS/REVIEWERS:		APPROVING AUTHORITY	APPROVAL SIGNATURE	DATE SIGNED	
Liaison Office		ORIG DEPT.	Kommi, Lakshmi	4/5/2013	
		CFO			
		DEPUTY CHIEF			
		COO			
		CITY ATTORNEY			
		COUNCIL PRESIDENTS OFFICE			
PREPARATION OF:	<input type="checkbox"/> RESOLUTIONS	<input type="checkbox"/> ORDINANCE(S)	<input type="checkbox"/> AGREEMENT(S)	<input type="checkbox"/> DEED(S)	
Forward to City Council the authorization of the City's Fiscal Year 2014 Tax and Revenue Anticipation Notes ("FY 2014 TRANS") borrowing to fund the projected seasonal cash flow deficit of the City's General Fund in Fiscal Year 2014. The City Council will be requested to approve related financing and disclosure documents for the FY 2014 TRANS financing at the City Council meeting of June 3/4, 2013.					

STAFF RECOMMENDATIONS: Forward the requested action to City Council.	
SPECIAL CONDITIONS (REFER TO A.R. 3.20 FOR INFORMATION ON COMPLETING THIS SECTION)	
COUNCIL DISTRICT(S):	All Districts will be served.
COMMUNITY AREA(S):	Citywide.
ENVIRONMENTAL IMPACT:	This activity is not a "project" as defined in State CEQA Guidelines, Section 15378 (b)(4).
CITY CLERK INSTRUCTIONS:	

**COUNCIL ACTION
EXECUTIVE SUMMARY SHEET
CITY OF SAN DIEGO**

DATE: 04/05/2013

ORIGINATING DEPARTMENT: Debt Management

SUBJECT: Fiscal Year 2014 Tax and Revenue Anticipation Notes

COUNCIL DISTRICT(S): All Districts will be served.

CONTACT/PHONE NUMBER: Jyothi Pantulu/(619)236-6917, 7B

DESCRIPTIVE SUMMARY OF ITEM:

Authorization of the City's Fiscal Year 2014 Tax and Revenue Anticipation Notes ("FY 2014 TRANs") borrowing to fund the projected seasonal cash flow deficit of the City's General Fund in Fiscal Year 2014. The City Council will be requested to approve related financing and disclosure documents for the FY 2014 TRANs financing at the City Council meeting of June 3/4, 2013.

STAFF RECOMMENDATION:

Forward the requested action to City Council.

EXECUTIVE SUMMARY OF ITEM BACKGROUND

I. BACKGROUND

Tax and Revenue Anticipation Notes ("TRANs") address temporary cash flow shortfalls arising from the fluctuations in annual tax and revenue receipts that the General Fund is dependent on to meet monthly cash flow needs during the fiscal year. The California Government Code (Article 7.6, Chapter 4, Part 1, Division 2, Title 5) and City Charter Section 92 specifically allow the City to issue short-term notes in any fiscal year in anticipation of the collection of taxes and revenues of such fiscal year.

The City has issued TRANs to finance the General Fund cash flow needs in anticipation of the receipt of property tax revenues from the County in December and April of each year. TRANs are sold in late June to make revenue available for General Fund disbursements that must be made commencing on July 1 of each year. The size of TRANs borrowing is based on the General Fund projected cash flow deficit in the first half of the fiscal year. Pursuant to Internal Revenue Service ("IRS") regulations, the size of the borrowing cannot exceed the projected deficit as certified by the City's Chief Financial Officer.

II. DISCUSSION

The borrowing amount for the FY 2014 TRANs will be derived by calculating the maximum deficit that would occur in Fiscal Year 2014 without the issuance of the notes, based on the projected General Fund monthly cash flow schedule prepared by the City Comptroller's Office. The cash flow projections will be based on the Fiscal Year 2014 General Fund Proposed Budget, which is expected to be released on April 15, 2013.

The City's FY 2013 TRANs were sold competitively, a process where interested investment banks bid on the interest rate of the TRANs and the investment bank(s) with the lowest interest rate bid or bids are awarded the TRANs. Strong investor demand and healthy short-term fixed income market combined with the City receiving the highest short-term ratings resulted in the

City's FY 2013 TRANs being received very well by the market. The City received strong bids from all major note underwriters and with a winning bid of 0.16%, the lowest yield in comparison with other comparable California TRAN offerings. Market conditions continue to be stable and the FY 2014 TRANs can be sold competitively. Driven by investor preferences, and similar to last year, the FY 2014 TRANs are expected to be structured with premium coupons that result in an Original Issue Premium (OIP). The principal amount borrowed is re-sized based on these additional proceeds. This structuring feature does not impact the true interest cost City incurs on the notes.

Also as with last year, TRANs can present an opportunity to realize net investment earnings whereby the taxable rate in which the City reinvests the proceeds and/or the amounts set aside to repay the TRANs is higher than the tax-exempt borrowing rate on TRANs. Preliminary analysis by the City's Investments office indicates there would be potential to structure the FY 2014 TRAN with a 12-month maturity, and reinvest the City's deposits to a repayment account to the maturity date of the note. The net earnings (interest cost of the borrowing minus the reinvestment earnings) would be General Fund monies and would offset the interest cost for the TRANs borrowing.

The City's 2014 TRANs Financing Team includes the Chief Financial Officer, Debt Management, the City Treasurer's Office, the Comptroller's Office, Financial Management, the City Attorney's Office, and outside financial and legal consultants, including Public Financial Management ("PFM") as independent Financial Advisor, Fulbright & Jaworski LLP as Bond and Disclosure Counsel, and a Paying Agent (to be identified). The members are identified through competitive selection processes.

The financing team is currently in the process of developing the financing documents. The documents will consist of the Financing Resolution which would authorize the issuance of the TRANs, the Accompanying Document to the Financing Resolution, the Notice Inviting Bids, the Preliminary Official Statement, the Continuing Disclosure Certificate, and the Paying Agent Agreement. The Preliminary Official Statement will be reviewed by the Disclosure Practices Working Group prior to docketing for City Council authorization. All the documents are expected to be docketed for City Council consideration on the docket of June 3/4, 2013.

Upon the City Council authorization of the resolution and related financing documents, the TRANs would be priced in mid-June 2013 with closing (receipt of TRAN proceeds) to occur on July 1, 2013.

FISCAL CONSIDERATIONS:

Since the FY 2014 cash flow need is yet to be projected based on the FY 2014 proposed budget, for illustration purposes, a 12 month borrowing of \$100 million at interest rates as of 4/3/2013 is assumed:

Total TRANs proceeds	\$ 100.0 million
TRANs Principal Amount	\$ 97.8 million
Other TRAN Proceeds (OIP)	\$ 2.2 million
Costs of Issuance	\$ 130,000

(Budgeted in the City's Tax and Revenue Anticipation Notes Fund (Fund No. 100005)

Maturity Date June 30, 2014

Repayment Set Aside Dates and Amounts \$25.0 million on January 1, 2014

(est. based on Fiscal Year 2013 TRANs) \$25.0 million on April 1, 2014

\$50.2 million on May 1, 2014

Estimated fiscal impact is presented below:

Nominal Estimated Interest Payment \$ 2.4 million

Nominal Interest Rate (note coupon) 2.5%

Total TRAN Repayment (principal + interest) \$ 100.2 million

Effective Estimated Interest Cost \$ 220,000

Effective Interest Rate (yield) 0.20%

Offsetting Estimated earnings on Repayment set-asides (\$ 56,000)

(based on set-asides invested in the City pool, with projected earnings rate of 0.30%)

Net Estimated Interest Cost \$ 163,500

In accordance with the City Council approved Debt Policy, the FY 2014 TRANs will be issued on a fixed rate basis. The actual interest rate will be set when the notes are sold and will be based on market conditions that exist at the time of pricing.

Under the terms of the financing documents, the FY 2014 TRANs are general obligations of the City payable from unrestricted taxes, income, revenue, cash receipts, and other moneys of the City's General Fund attributable to Fiscal Year 2014. The notes are secured by a pledge of the first revenues received by the City in Fiscal Year 2014, on or after the set-aside dates. The amounts to be set-aside on each date will be determined based on the timing of the City's revenues and by analyzing the debt service coverage ratio on each set-aside date (i.e. the amount of revenues available in the month the applicable note portion is set-aside divided by the amount of principal set-aside on that date). The City is not authorized to levy or collect any tax for the repayment of the notes.

Kommi, Lakshmi

Originating Department

Deputy Chief/Chief Operating Officer